Office of Financial Management

Chart of Accounts Project

Final Recommendations
February 9, 2006

Chart of Accounts Project
Introduction

This document provides final recommendations to the issues and solution alternatives identified by the core chart of accounts (COA) team after a thorough review of the data accumulated during the Internet survey and stakeholder interviews. These recommendations are based on input received from stakeholders.

The issues are as follows:

- Should the state adopt a different funding model for AFRS?
- How can the state modify the COA and/or AFRS system to support accounting by budget activity?
- Should the state establish descriptions for revenue source titles?
- Should the state strengthen policies supporting expenditure recoveries?
- How could the state modify the COA and/or AFRS system to better support agency contract, project, and grant management activities?
- Could the state achieve more complete and accurate enterprise information by mandating the use of more COA elements?

Thank you for your participation in this effort to evaluate the chart of accounts.

After evaluating all the data collected and input from all the stakeholders, the COA team recommends that the chart of accounts remain as is with a few minor enhancements. Our conclusions and recommendations are as follows:

- Retain all of the existing COA elements.

- Use the *Roadmap*-related business analysis efforts to confirm information needs for grant, contract, and project management processes. This Chart of Accounts study indicated that there is likely to be sufficient capacity within the current system to accommodate any additional information needs. State policies, processes and systems would need to be updated to support any ultimate chart of account changes.

- Develop more descriptive revenue source titles and definitions in SAAM. OFM Statewide Accounting will lead this effort.

- Continue to explore options that allow for reporting actual expenditures by budget activity. The most feasible options at this time appear to be approaches that would use some kind of program index/activity crosswalk to produce activity reports outside of AFRS. This project did not find it currently feasible to require expenditure transactions to be recorded by activity either at a detailed or summary level. OFM will continue to research options.

- Consider adding a new sub object for expenditure recoveries, if further analysis concludes this would mitigate problems posed by the current approach. OFM Statewide Accounting will continue to research.

- While it would be feasible to establish a new sub object, or to set aside sub-sub objects, for state purposes in order to support SmartBuy or other enterprise initiatives, such COA changes should be made only if a business case can be made to support such a change. At this time, this is not the preferred approach for tracking detailed purchasing information.

1. Should the state adopt a different funding model for AFRS?

Problem Statement: Some agencies do not use COA elements at the lower, non-mandatory levels of detail due to AFRS costs, contributing to the development and use of internal systems and hindering the collection of enterprise type data.

Recommendation: Stakeholders were not in agreement on the alternatives presented. The Office of Financial Management's Statewide Financial Systems is in the process of evaluating rate and billing options and has been provided the stakeholder feedback received during this project.

2. How can the state modify the COA and/or AFRS system to support accounting by budget activity?

Problem Statement: Activities have been used in the budget now for the last two biennial budgets—and have proved their value in that context. However actual expenditures are not recorded by activity at this time, in part because we do not know if this is feasible or worth the cost. Agencies do recast the enacted budget into activities, but this process is labor intensive and often based on estimates and assumptions about actual activity costs.

Recommendation: OFM will continue to explore ways to assist agencies in creating an easy way to report actual expenditures by budget activity at some point in the future. This project did not find it currently feasible to require expenditure transactions to be recorded by activity either at a detailed or summary level. Many stakeholders are willing to adopt alternative 4, which is to develop a process to recast AFRS transactions to activity via a program index/activity crosswalk table in Fastrack reporting. While this approach seems promising, its feasibility has not been confirmed. The indirect cost policy for budget activities will certainly complicate this approach.

3. Should the state establish descriptions for revenue source titles?

Problem Statement: Currently agencies rely on revenue source titles when selecting revenue source codes.   For some source codes, the title is descriptive enough that the agency can select the source code with confidence, while other source code titles have similarities that require the agency to exercise judgment, and may result in incorrect source code selections.

Recommendation: Stakeholders supported the idea of more descriptive titles and descriptions for source codes. Over the next few months, OFM will initiate work with agency staff to draft and refine titles and descriptions for revenue source codes.

4. Should the state strengthen policies supporting expenditure recoveries?

Problem Statement: SAAM (85.20.30) currently addresses recoveries of expenditures as non-revenue receipts. These receipts may be recorded within agency financial records using a variety of different coding techniques, depending on the nature of the recovery. For example, inter/intra agency and prior period reimbursements are tracked with an object S, T or the appropriate revenue source code, respectively.

SAAM also requires other types of recoveries to be recovered back to the original line of account coding. This is the approach for recording refunds received from vendors or parties outside state government. It includes amounts recovered for

product returns, canceled warrants, insurance premium refunds, and cancelled subscriptions or contracts where the recoveries are for current appropriation allotment charges. If the recovery is for a prior period allotment charge, it should be recorded to the designated revenue source code.

However, for a variety of reasons, certain agencies record event sponsorship donations, training fees and/or charges for goods and services as recoveries of current period expenditures. These types of recoveries are difficult to track in the financial records, can mask the true cost of producing a product or delivering a service, and 'create' spending authority.

Recommendation: Because the types of recoveries described in the third paragraph of the problem statement above are not visible in the accounting records, we need to do more research to better understand the nature of activities and amounts involved. Stakeholder interest in this issue was limited. Therefore, we recommend prioritizing the work effort involved below the revenue source descriptions. The effort will consider adding a new sub object for certain kinds of expenditure recoveries, if further analysis concludes this would mitigate problems posed by the current approach.

5. How could the state modify the COA and/or AFRS system to better support agency contract, project, and grant management activities?

Problem Statement: Throughout the on-line survey and stakeholder interviews, respondents requested additional COA elements to support contract, project and grant management activities. Reasons for these requests varied widely and ranged from a desire to view federal expenditures and revenue at a finer level of detail than what is currently mandated, to adding a contract field to facilitate tracking payments and receipts for Interagency Agreements.

From our analysis, we know business requirements for these activities vary from agency to agency. These requirements dictate how an agency uses these fields and whether or not the agency relies on internal systems for additional business functionality or management information. We also know the AFRS record layout includes a small amount of vacant space that could be used to collect information related to contract, grant, or project management activities. However, at this time, we do not have clearly defined information objectives and agency requirements for these business processes.

Recommendation: Stakeholders are in agreement to forgo making any changes to AFRS or the chart of accounts in contract, grant, and project management business processes while other initiatives are addressing them. The *Roadmap* Committee is currently modeling the contract and grant processes to gather more information about what is needed and the best approach to meeting the needs identified. A comprehensive review of the capital budget development and implementation is also underway and will shed light on statewide processes for capital project management and reporting. This Chart of Accounts study has

confirmed that there is likely to be sufficient capacity within the current system to accommodate additional information needs identified in these efforts. State policies, processes and systems would need to be updated to support any ultimate chart of account changes.

6. Could the state achieve more complete and accurate enterprise information by mandating the use of more COA elements?

Problem Statement: A number of stakeholder respondents stated inconsistent use of agency-defined codes contributed to reduced comparability between programs and agencies, and was a weakness in the current chart of accounts design. For example, agencies have discretion in assigning agency-defined codes for information technology purchases in addition to the mandated statewide codes. As a result, it is difficult to obtain an enterprise-level view of the different categories of technology purchases because the agency-defined codes vary. Similarly, there are no enterprise level administrative cost designations within the COA.

Certain stakeholders would like to see better integration of the state's chart of accounts with the BARS (Budgetary, Accounting, and Reporting System) chart of accounts used by local government. Because the state's current chart of accounts does not facilitate the identification of state support to local governments, it is difficult to:

- Determine the level of state support to local governments.
- Aggregate the total public spend at the state and local level.

Even when stakeholders talked about the benefits of more enterprise-level data, they did so with a caution about losing too much agency flexibility for defining data elements. This flexibility is considered key for agencies to meet their many management and reporting requirements. Also, many agency systems and processes rely on current chart of account coding. Mandating more elements of the chart of accounts could require some agencies to have to modify these processes.

Recommendation: OFM will retain the current mandated chart of account codes. New codes should not be mandated until clearly defined objectives and on-going enterprise needs are defined. This may follow other statewide business analysis initiatives (e.g. *Roadmap* Enterprise Business Modeling.) Once those efforts are complete we will have a more comprehensive understanding of the urgency and severity of agency business needs, cost and effort required to mandate new coding elements, new policy opportunities, opportunities to adopt best practices, and enterprise data requirements.

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